

HOUSE TAXATION AND REVENUE COMMITTEE SUBSTITUTE FOR  
HOUSE BILLS 143, 373 & 377

45TH LEGISLATURE - STATE OF NEW MEXICO - SECOND SESSION, 2002

AN ACT

RELATING TO TAXATION; INCLUDING CERTAIN ELECTRICITY GENERATION  
IN THE DEFINITION OF MANUFACTURING FOR PURPOSES OF THE  
INVESTMENT CREDIT ACT AND FOR APPORTIONMENT OF BUSINESS INCOME  
FOR INCOME TAX PURPOSES; PROVIDING FOR ISSUANCE OF INDUSTRIAL  
REVENUE BONDS FOR CERTAIN ELECTRICITY GENERATION FACILITY AND  
501(c)(3) CORPORATION PROJECTS IN COUNTIES AND MUNICIPALITIES;  
PROVIDING A DEDUCTION FROM GROSS RECEIPTS FOR CERTAIN SALES OF  
ENERGY GENERATION EQUIPMENT; REPEALING LAWS 2001, CHAPTER 57,  
SECTION 1 AND LAWS 2001, CHAPTER 284, SECTION 3.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

Section 1. Section 3-32-1 NMSA 1978 (being Laws 1965,  
Chapter 300, Section 14-31-1, as amended) is amended to read:

"3-32-1. INDUSTRIAL REVENUE BOND ACT--DEFINITIONS.--

Wherever used in the Industrial Revenue Bond Act unless a

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underscored material = new  
[bracketed material] = delete

different meaning clearly appears in the context, the following terms whether used in the singular or plural shall be given the following respective interpretations:

A. "municipality" means any city, town or village in the state of New Mexico;

B. "project" means any land and building or other improvements thereon, the acquisition by or for a New Mexico corporation of the assets or stock of an existing business or corporation located outside the state of New Mexico to be relocated within or near the municipality in the state of New Mexico and all real and personal properties deemed necessary in connection therewith, whether or not now in existence, which shall be suitable for use by the following or by any combination of two or more thereof:

(1) any industry for the manufacturing, processing or assembling of any agricultural or manufactured products;

(2) any commercial enterprise in storing, warehousing, distributing or selling products of agriculture, mining or industry but does not include facilities designed for the sale of goods or commodities at retail or distribution to the public of electricity, gas, water or telephone or other services commonly classified as public utilities;

(3) any business in which all or part of the activities of ~~[such]~~ the business involve the supplying of

services to the general public or to governmental agencies or to a specific industry or customer but does not include establishments primarily engaged in the sale of goods or commodities at retail; ~~and~~

(4) any water distribution or irrigation system, including without limitation, pumps, distribution lines, transmission lines, towers, dams and similar facilities and equipment, designed to provide water to any vineyard or winery;

(5) any electric generation facility other than one for which both location approval and a certificate of convenience and necessity are required prior to commencing construction or operation of the facility, pursuant to the Public Utility Act and Electric Utility Industry Restructuring Act of 1999; and

(6) any 501(c)(3) corporation;

C. "governing body" means the board or body in which the legislative powers of the municipality are vested;

D. "property" means any land, improvements thereon, buildings and any improvements thereto, machinery and equipment of any and all kinds necessary to the project, operating capital and any other personal properties deemed necessary in connection with the project;

E. "mortgage" means a mortgage or a mortgage and deed of trust or the pledge and hypothecation of any assets as

collateral security;

F. "health care services" means the diagnosis or treatment of sick or injured persons or medical research and includes the ownership, operation, maintenance, leasing and disposition of health care facilities such as hospitals, clinics, laboratories, x-ray centers and pharmacies and, for any small municipality only, ~~[includes]~~ office facilities for physicians; ~~[and]~~

G. "refinance a hospital or 501(c)(3) corporation project" means the issuance of bonds by a municipality and the use of all or substantially all of the proceeds to liquidate any obligations previously incurred to finance or aid in financing a project of any nonprofit corporation engaged in health care services, including nursing homes, or of any 501 (c)(3) corporation, which would constitute a project under the Industrial Revenue Bond Act had it been originally undertaken and financed by a municipality pursuant to the Industrial Revenue Bond Act; and

H. "501(c)(3) corporation" means a corporation that demonstrates to the taxation and revenue department that it has been granted exemption from the federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended or renumbered."

Section 2. Section 3-32-5 NMSA 1978 (being Laws 1967, Chapter 84, Section 3, as amended) is amended to read:

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1           "3-32-5.    ADDITIONAL LEGISLATIVE INTENT.--It is further  
 2   the legislative intent that the Industrial Revenue Bond Act  
 3   authorize municipalities to refinance hospital or 501(c)(3)  
 4   corporation projects and projects of any independent,  
 5   nonprofit, nonsectarian four-year college or university  
 6   accredited by the north central association of colleges and  
 7   schools, to acquire, own, lease or sell projects for the  
 8   purpose of promoting the local economy and improving local  
 9   health and the general welfare by inducing private  
 10   institutions of higher education, [~~and~~] nonprofit corporations  
 11   engaged in health care services, including nursing homes,  
 12   501(c)(3) corporations and, for any small municipality only,  
 13   office facilities for physicians, to provide more adequate  
 14   facilities of higher education and to provide more adequate  
 15   health care services in this state and by inducing mass  
 16   transit or other transportation activities, industrial parks,  
 17   office headquarters and research and development activities to  
 18   locate or expand in this state.   It is not intended to  
 19   authorize any municipality to own or lease projects for retail  
 20   business or by itself to operate any private institution of  
 21   higher education; [~~or any~~] nonprofit corporation engaged in  
 22   health care services, including nursing homes; 501(c)(3)  
 23   corporation; [~~or~~] industrial parks; office headquarters; or  
 24   research and development facilities. "

25           Section 3.   Section 3-32-6 NMSA 1978 (being Laws 1965,

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Chapter 300, Section 14-31-3, as amended) is amended to read:

"3-32-6. ADDITIONAL POWERS CONFERRED ON

MUNICIPALITIES. -- In addition to any other powers which it may now have, each municipality shall have the following powers:

A. to acquire, whether by construction, purchase, gift or lease, one or more projects which shall be located within this state and may be located within or without the municipality or partially within or partially without the municipality, but which shall not be located more than fifteen miles outside of the corporate limits of the municipality; provided that the municipality shall not acquire any electricity generation facility project unless the acquisition is approved by the local school board of the school district in which a project is located and the governing body, the local school board and the person proposing the project negotiate and determine the amount of an annual in-lieu tax payment to be made to the school district by the person proposing the project, for the period that the municipality owns and leases the project, and provided such approval shall not be unreasonably withheld;

B. to sell or lease or otherwise dispose of any or all of its projects upon such terms and conditions as the governing body may deem advisable and as shall not conflict with the provisions of the Industrial Revenue Bond Act;

C. to issue revenue bonds for the purpose of

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defraying the cost of acquiring by construction and purchase or either any project and to secure the payment of such bonds, all as provided in the Industrial Revenue Bond Act. No municipality shall have the power to operate any project as a business or in any manner except as lessor;

D. to refinance one or more hospital or 501(c)(3) corporation projects and to acquire any such hospital or 501(c)(3) corporation project whether by construction, purchase, gift or lease, which hospital or 501(c)(3) corporation project shall be located within this state and may be located within or without the municipality or partially within or partially without the municipality, but which shall not be located more than fifteen miles outside of the corporate limits of the municipality, and to issue revenue bonds to refinance and acquire a hospital or 501(c)(3) corporation project and to secure the payment of such bonds, all as provided in the Industrial Revenue Bond Act. No municipality shall have the power to operate any hospital or 501(c)(3) corporation project as a business or in any manner except as lessor; and

E. to refinance one or more projects of any private institution of higher education and to acquire any such project, whether by construction, purchase, gift or lease; provided that the project shall be located within this state and may be located within or without the municipality or

1 partially within or partially without the municipality, but  
2 the project shall not be located more than fifteen miles  
3 outside of the corporate limits of the municipality, and to  
4 issue revenue bonds to refinance and acquire any project of  
5 any private institution of higher education and to secure the  
6 payment of such bonds. No municipality shall have the power  
7 to operate any project of any private institution of higher  
8 education as a business or in any manner except as lessor."

9 Section 4. Section 4-59-2 NMSA 1978 (being Laws 1975,  
10 Chapter 286, Section 2, as amended) is amended to read:

11 "4-59-2. DEFINITIONS.--As used in the County Industrial  
12 Revenue Bond Act, unless the context clearly indicates  
13 otherwise:

14 A. "commission" means the governing body of a  
15 county;

16 B. "county" means those counties organized or  
17 incorporated in New Mexico;

18 C. "501(c)(3) corporation" means a corporation  
19 that demonstrates to the taxation and revenue department that  
20 it has been granted exemption from the federal income tax as  
21 an organization described in Section 501(c)(3) of the Internal  
22 Revenue Code of 1986, as amended or renumbered;

23 ~~[C.]~~ D. "health care services" means the diagnosis  
24 or treatment of sick or injured persons or medical research  
25 and includes the ownership, operation, maintenance, leasing



and disposition of health care facilities, such as hospitals, clinics, laboratories, x-ray centers and pharmacies;

~~[D-]~~ E. "mortgage" means a mortgage or a mortgage and deed of trust or the pledge and hypothecation of any assets as collateral security;

~~[E-]~~ F. "project" means any land and building or other improvements thereon, the acquisition by or for a New Mexico corporation of the assets or stock of an existing business or corporation located outside the state to be relocated within a county, but not within the boundaries of any incorporated municipality, in the state, and all real and personal properties deemed necessary in connection therewith, whether or not now in existence, which shall be suitable for use by the following or by any combination of two or more thereof:

(1) any industry for the manufacturing, processing or assembling of any agricultural or manufactured products;

(2) any commercial enterprise in storing, warehousing, distributing or selling products of agriculture, mining or industry, but does not include facilities designed for the sale or distribution to the public of electricity, gas, telephone or other services commonly classified as public utilities, except for:

(a) water utilities; and

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~~purposes for the 1999 property tax year of more than one  
hundred million dollars (\$100,000,000); or 6) a population of  
less than thirty-five thousand according to the 1990 federal  
decennial census and with a net taxable value for property  
taxation purposes for the 1999 property tax year of more than  
seven hundred million dollars (\$700,000,000);]~~

(b) any electric generation facility  
other than one for which both location approval and a  
certificate of convenience and necessity are required prior to  
commencing construction or operation of the facility, pursuant  
to the Public Utility Act and the Electric Utility Industry  
Restructuring Act of 1999;

(3) any business in which all or part of the  
activities of ~~[such]~~ the business involve the supplying of  
services to the general public or to governmental agencies or  
to a specific industry or customer;

(4) any nonprofit corporation engaged in  
health care services;

(5) any mass transit or other transportation  
activity involving the movement of passengers, any industrial  
park, any office headquarters and any research facility; ~~[and]~~

(6) any water distribution or irrigation  
system, including without limitation, pumps, distribution  
lines, transmission lines, towers, dams and similar facilities  
and equipment; and

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1                                (7) any 501(c)(3) corporation; and

2                                ~~[F.]~~ G. "property" means any land, improvements  
3 thereon, buildings and any improvements thereto, machinery and  
4 equipment of any and all kinds necessary to the project,  
5 operating capital and any other personal properties deemed  
6 necessary in connection with the project. "

7                                "Section 5. Section 4-59-3 NMSA 1978 (being Laws 1975,  
8 Chapter 286, Section 3) is amended to read:

9                                "4-59-3. LEGISLATIVE INTENT.--It is the intent of the  
10 legislature by the passage of the County Industrial Revenue  
11 Bond Act to authorize counties to acquire, own, lease or sell  
12 projects for the purpose of promoting industry and trade by  
13 inducing manufacturing, industrial and commercial enterprises  
14 to locate or expand in this state, promoting the use of the  
15 agricultural products and natural resources of this state and  
16 promoting a sound and proper balance in this state between  
17 agriculture, commerce and industry. Further, it is the intent  
18 of the legislature that counties may be able to promote the  
19 local health and general welfare by inducing nonprofit  
20 corporations engaged in health care services and 501(c)(3)  
21 corporations to locate, relocate, modernize or expand in this  
22 state and by inducing mass transit or other transportation  
23 activities, industrial parks, office headquarters and research  
24 and development activities to locate or expand in this state.  
25 It is intended that each project be self-liquidating. It is

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not intended that any county itself be authorized to operate any manufacturing, industrial or commercial enterprise or any nonprofit corporation engaged in health care services or any 501(c)(3) corporation or industrial parks, office headquarters or research and development facilities. "

Section 6. Section 7-4-10 NMSA 1978 (being Laws 1993, Chapter 153, Section 1, as amended by Laws 2001, Chapter 57, Section 1 and by Laws 2001, Chapter 284, Section 3 and also by Laws 2001, Chapter 337, Section 1) is amended to read:

"7-4-10. APPORTIONMENT OF BUSINESS INCOME. --

A. Except as provided in Subsection B of this section, all business income shall be apportioned to this state by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor and the denominator of which is three.

B. For taxable years beginning prior to January 1, 2011, each taxpayer whose principal business activity is manufacturing may elect to have business income apportioned to this state by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus twice the sales factor and the denominator of which is four. To elect the method of apportionment provided by this subsection, the taxpayer shall notify the department of the election, in writing, no later than the date on which the taxpayer files the return for the first taxable year to

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1 which the election will apply. The election will apply to  
2 that taxable year and to each taxable year thereafter until  
3 the taxpayer notifies the department, in writing, that the  
4 election is terminated, except that the taxpayer shall not  
5 terminate the election until the method of apportioning  
6 business income provided by this subsection has been used by  
7 the taxpayer for at least three consecutive taxable years,  
8 including a total of at least thirty-six calendar months.  
9 Notwithstanding any provisions of this subsection to the  
10 contrary, the taxpayer shall use the method of apportionment  
11 provided by Subsection A of this section for the taxable year  
12 unless:

13 (1) the taxpayer's corporate income tax  
14 liability for the taxable year, computed by the same method of  
15 apportionment used in the preceding taxable year, exceeds the  
16 corporate income tax liability for the taxpayer's immediately  
17 preceding taxable year; or

18 (2) the sum of the taxpayer's payroll factor  
19 and property factor for the taxable year exceeds the sum of  
20 the taxpayer's payroll factor and property factor for the  
21 taxpayer's base year. For purposes of this paragraph, "base  
22 year" means the taxpayer's first taxable year beginning on or  
23 after January 1, 1991.

24 C. For purposes of this section, "manufacturing"  
25 means combining or processing components or materials to

increase their value for sale in the ordinary course of business, but does not include:

- (1) construction;
- (2) farming;
- (3) power generation, except for electricity generation at a facility other than one for which both location approval and a certificate of convenience and necessity are required prior to commencing construction or operation of the facility, pursuant to the Public Utility Act and the Electric Utility Industry Restructuring Act of 1999;  
or
- (4) processing natural resources, including hydrocarbons. "

Section 7. Section 7-9A-3 NMSA 1978 (being Laws 1979, Chapter 347, Section 3, as amended) is amended to read:

"7-9A-3. DEFINITIONS.--As used in the Investment Credit Act:

A. "department" means the taxation and revenue department, the secretary of taxation and revenue or any employee of the department exercising authority lawfully delegated to that employee by the secretary;

B. "equipment" means an essential machine, mechanism or tool, or a component or fitting thereof, used directly and exclusively in a manufacturing operation and subject to depreciation for purposes of the Internal Revenue

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Code by the taxpayer carrying on the manufacturing operation.  
"Equipment" does not include any vehicle that leaves the site  
of the manufacturing operation for purposes of transporting  
persons or property or any property for which the taxpayer  
claims the credit pursuant to Section 7-9-79 NMSA 1978;

C. "manufacturing" means combining or processing  
components or materials, including recyclable materials, to  
increase their value for sale in the ordinary course of  
business, including genetic testing and production, but not  
including:

(1) construction;

(2) farming;

(3) power generation ~~[other than electricity  
generation at facilities in any class B county with:~~

~~(a) a population of more than forty-  
seven thousand but less than sixty thousand according to the  
1990 federal decennial census and with a net taxable value for  
property taxation purposes for the 1999 property tax year of  
more than five hundred fifty million dollars (\$550,000,000);~~

~~(b) a population of less than twenty  
thousand according to the 1990 federal decennial census and  
with a net taxable value for property taxation purposes for  
the 1999 property tax year of more than two hundred ten  
million dollars (\$210,000,000) but less than four hundred  
million dollars (\$400,000,000);~~



~~(c) a population of more than fifteen thousand but less than nineteen thousand according to the 1990 federal decennial census and with a net taxable value for property taxation purposes for the 1999 property tax year of more than one hundred eighty million dollars (\$180,000,000) but less than two hundred forty million dollars (\$240,000,000);~~

~~(d) a population of more than forty-two thousand but less than forty-five thousand according to the 1990 federal decennial census and with a net taxable value for property taxation purposes for the 1999 property tax year of more than three hundred million dollars (\$300,000,000) but less than four hundred million dollars (\$400,000,000);~~

~~(e) a population of less than six thousand according to the 1990 federal decennial census and with a net taxable value for property taxation purposes for the 1999 property tax year of more than one hundred million dollars (\$100,000,000); or~~

~~(f) a population of less than thirty-five thousand according to the 1990 federal decennial census and with a net taxable value for property taxation purposes for the 1999 property tax year of more than seven hundred million dollars (\$700,000,000)], except for electricity generation at a facility other than one for which both location approval and a certificate of convenience and~~

1 necessity are required prior to commencing construction or  
2 operation of the facility, pursuant to the Public Utility Act  
3 and the Electric Utility Industry Restructuring Act of 1999;  
4 or

5 (4) processing natural resources, including  
6 hydrocarbons;

7 D. "manufacturing operation" means a plant,  
8 including a genetic testing and production facility, employing  
9 personnel to perform production tasks, in conjunction with  
10 equipment not previously existing at the site, to produce  
11 goods;

12 E. "recyclable materials" means materials that  
13 would otherwise become solid waste if not recycled and that  
14 can be collected, separated or processed and placed in use in  
15 the form of raw materials or products; and

16 F. "taxpayer" means a person liable for payment of  
17 any tax, a person responsible for withholding and payment over  
18 or for collection and payment over of any tax or a person to  
19 whom an assessment has been made, if the assessment  
20 remains unabated or the amount thereof has not been paid. "

21 Section 8. A new section of the Gross Receipts and  
22 Compensating Tax Act is enacted to read:

23 "[NEW MATERIAL] DEDUCTION--GROSS RECEIPTS TAX--WIND  
24 ENERGY GENERATION EQUIPMENT--SALES TO GOVERNMENT AGENCIES.--  
25 Receipts from selling wind generation nacelles, rotors or

related equipment to the United States or New Mexico or any governmental unit or subdivision, agency, department or instrumentality thereof, if such equipment is installed on a supporting structure, may be deducted from gross receipts. "

Section 9. REPEAL. -- Laws 2001, Chapter 57, Section 1 and Laws 2001, Chapter 284, Section 3 are repealed.

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[bracketed material] = delete